

# Directors' Report

The Board of Directors is pleased to present to the shareholders their report together with the audited accounts of the Company and its subsidiaries (the "Group") for the year ended 31 December 2004.

## Principal Activities

The Group is principally engaged in property development and investment, hotel operation and project development consulting operation.

## Results

The results of the Group for the year ended 31 December 2004, prepared in accordance with the accounting principles generally accepted in Hong Kong and its financial position as at the same date are set out on pages 58 to 63 of the annual report.

## Dividends

At a Board meeting held on 22 March 2005, the directors declared a final dividend of RMB7 cents per share based on the Company's total issued number of shares of 1,715,960,000 on the same day and the total amount payable will be RMB120,117,200. This proposed dividend is not represented as a dividend payable in these accounts, but will be reflected as an appropriation of retained profit for the year ended 31 December 2005.

## Financial Highlights

The Group's consolidated/combined results and summaries of assets and liabilities for the last five years are set out on page 4 of this Annual Report.

## Major Customers and Suppliers

During the year, the Group purchased less than 30% of goods and services from its five largest suppliers and sold approximately 64% of its goods and services to its five largest customers. The Group's turnover from the largest customer accounted for approximately 20% of the total turnover.

None of the directors, their associates or any shareholders (which to the knowledge of the directors own more than 5% of the Company's share capital) had an interest in the major suppliers or customers mentioned above.

## Fixed Assets

Details of the movement of fixed assets of the Group during the year are set out in note 12 to the accounts.

## Directors' Report

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### Principal Properties

The summary of principal properties owned by the Group is set out on pages 8 to 9 of the annual report.

### Reserve

Details of movements of reserve of the Group and the Company during the year are set out in note 30 to the accounts.

### Purchase, Sale or Redemption of Shares

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiary companies has purchased or sold any of the Company's shares during the year.

### Directors and Supervisors

The directors and supervisors for the year are as follows:

#### Directors

##### *Executive Directors*

Mr. Liu Xiaoguang	(Chairman)
Mr. Tang Jun	(President)
Mr. He Guang	(Vice-President)
Mr. Pan Pei	(Vice-President)
Mr. Wang Zhengbin	(Vice-President)

##### *Non-executive Directors*

Ms. Zhu Min  
Mr. Muk Kin Yau

##### *Independent Non-executive Directors*

Mr. Peter Yuk Lun Eng  
Mr. Kwong Kai Sing, Benny  
Mr. Ke Jianmin  
Mr. Yu Xingbao

## Directors' Report

### **Directors and Supervisors** *(continued)*

#### **Supervisors**

##### *Supervisors*

Mr. Yu Changjian

Mr. Wei Jianping

Mr. Wang Qi

##### *Independent Supervisor*

Mr. Xu Jianhong

The biographical details of directors, supervisors and senior management are set out on pages 33 to 37 of the annual report.

#### **Election of Directors and Supervisors**

Mr. Wang Qi and Mr. Yang Yulu tendered their resignation from being Non-executive Director and Independent Supervisor of the Company respectively in May 2004. Mr. Wang Qi and Mr. Yu Xingbao were appointed as Supervisor and Independent Non-executive Director of the Company respectively in May 2004.

#### **Directors' and Supervisors' Emoluments**

Details of directors' and supervisors' emoluments are set out in note 10 to the accounts.

#### **Highest Paid Individuals**

During the year, the five individuals with the highest remuneration in the Group are all directors of the Company.

#### **Management Contracts**

Except for the connected transactions as stated in this report, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## Directors' Report

### Interests of Directors and Supervisors

As at 31 December 2004, the interests and short positions of each Director, supervisor and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which will have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Hong Kong Stock Exchange (for this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the Supervisors):

Director/Supervisor	Relevant entity	Type	No. of Shares held	Approximate percentage of registered capital of the relevant entity
Liu Xiaoguang	Beijing Capital Sunshine Real Estate Development Co., Ltd.	Individual	2,000,000	2.00%
Tang Jun	Beijing Capital Sunshine Real Estate Development Co., Ltd.	Individual	2,000,000	2.00%
Pan Pei	Beijing Capital Technology Investment Ltd.	Individual	1,500,000	0.75%
Wang Qi	Beijing Capital Sunshine Real Estate Development Co., Ltd.	Individual	400,000	0.40%
	Beijing Capital Technology Investment Ltd.	Individual	2,000,000	1.00%
Yu Changjian	Beijing Capital Sunshine Real Estate Development Co., Ltd.	Individual	600,000	0.60%
	Beijing Capital Technology Investment Ltd.	Individual	800,000	0.40%

Save as disclosed above, as at 31 December 2004, none of the directors, supervisors and chief executive of the Company has any interest or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under Section 352 of SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of listed companies. None of the directors, supervisors and chief executive of the Company, their spouses or children under the age of 18 years had been granted any rights to subscribe for equity or debt securities of the Company, nor has any of them exercised such rights during the year.

## Directors' Report

### Interests of Directors and Supervisors in Contracts

Apart from service contracts in relation to the Company's business, no contract of significance to which the Company, its holding company, any of its subsidiaries or its fellow subsidiaries was a party, and in which a director or supervisor had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### Interests of Directors and Supervisors in Competing Business

During the year and up to the date of this report, none of the directors or supervisors or management shareholders has any interest in business which competes or may compete with the business of the Group under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

### Share Capital

As at 31 December 2004, there were a total issued share capital of 1,613,300,000 shares of the Company (the "Shares") which include:

	<b>Number of Shares</b>	<b>Approximate percentages of share capital</b>
Domestic Shares	690,671,700	42.8%
Non-H Foreign Shares	357,998,300	22.2%
H Shares	564,630,000	35.0%

## Directors' Report

### Substantial Shareholders' Interests in Shares

As at 31 December 2004, the following persons (not being director or chief executive of the Company), so far as are known to any Director, have interests or short positions in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of shareholders	Number of Shares directly and indirectly held	Class of Shares	Approximate percentages in relevant class of shares (%)			Approximate percentages in total issued share capital (%)		
			Direct interests	Indirect interests	Aggregate interests	Direct interests	Indirect interests	Aggregate interests
Capital Group	965,907,900 <sup>(1)</sup>	Non-listed Shares	5.34 (long position)	86.77	92.11	3.47 (long position)	56.40	59.87
Beijing Sunshine Real Estate Comprehensive Development Company	619,146,500 <sup>(2)</sup>	Non-listed Shares	5.50 (long position)	53.54	59.04	3.58 (long position)	34.80	38.38
Beijing Capital Sunshine Real Estate Development Co., Ltd.	561,461,900 <sup>(3)</sup>	Non-listed Shares	27.29 (long position)	26.25	53.54	17.74 (long position)	17.06	34.80
Beijing Capital Technology Investment Ltd.	172,006,700	Non-listed Shares	16.40 (long position)	—	16.40	10.66 (long position)	—	10.66
Beijing Capital Hangyu Economic Development Co., Ltd.	118,747,600	Non-listed Shares	11.32 (long position)	—	11.32	7.36 (long position)	—	7.36
China Resource Products Limited	275,236,200	Non-listed Shares	26.25 (long position)	—	26.25	17.06 (long position)	—	17.06
Yieldwell International Enterprise Limited	82,762,100	Non-listed Shares	7.89 (long position)	—	7.89	5.13 (long position)	—	5.13
Flexi Holdings Limited	82,762,100 <sup>(4)</sup>	Non-listed Shares	—	7.89 (long position)	7.89	—	5.13 (long position)	5.13
Chung Pok Ying	82,762,100 <sup>(5)</sup>	Non-listed Shares	—	7.89 (long position)	7.89	—	5.13 (long position)	5.13
Reco Pearl Private Limited	158,102,000	H Shares	28.00 (long position)	—	28.00	9.80 (long position)	—	9.80
Recosia China Pte Ltd.	158,102,000 <sup>(6)</sup>	H Shares	—	28.00 (long position)	28.00	—	9.80 (long position)	9.80
Recosia Pte Ltd.	158,102,000 <sup>(7)</sup>	H Shares	—	28.00 (long position)	28.00	—	9.80 (long position)	9.80
Government of Singapore Investment Corporation (Realty) Pte Ltd.	158,102,000 <sup>(8)</sup>	H Shares	—	28.00 (long position)	28.00	—	9.80 (long position)	9.80
J.P. Morgan Chase & Co.	99,467,688 <sup>(9)</sup>	H Shares	—	17.62 (long position)	17.62	—	6.17 (long position)	6.17
J.P. Morgan Chase & Co.	40,859,344 <sup>(10)</sup>	H Shares	—	7.24 (lending pool)	7.24	—	2.53 (lending pool)	2.53

## Directors' Report

**Substantial Shareholders' Interests in Shares** (continued)

Name of shareholders	Number of Shares directly and indirectly held	Class of Shares	Approximate percentages in relevant class of shares (%)			Approximate percentages in total issued share capital (%)		
			Direct interests	Indirect interests	Aggregate interests	Direct interests	Indirect interests	Aggregate interests
Zesiger Capital Group LLC	45,216,000	H Shares	8.01 (long position)	—	8.01	2.80 (long position)	—	2.80
Martin Currie Investment Management Limited	32,676,000	H Shares	5.79 (long position)	—	5.79	2.03 (long position)	—	2.03

## Notes:

- Of these 965,907,900 Shares, 56,007,100 Shares are directly held by Capital Group, the remaining 909,900,800 Shares are deemed corporate interests under the SFO indirectly held through Beijing Sunshine Real Estate Comprehensive Development Company, Beijing Capital Sunshine Real Estate Development Co., Ltd., Beijing Capital Technology Investment Ltd., Beijing Capital Hangyu Economic Development Co., Ltd. and China Resource Products Limited.
- Of these 619,146,500 Shares, 57,684,600 Shares are directly held by Beijing Sunshine Real Estate Comprehensive Development Company, the remaining 561,461,900 Shares are deemed corporate interests under the SFO indirectly held through Beijing Capital Sunshine Real Estate Development Co., Ltd. and China Resource Products Limited.
- Of these 561,461,900 Shares, 286,225,700 Shares are directly held by Beijing Capital Sunshine Real Estate Development Co., Ltd., the remaining 275,236,200 Shares are deemed corporate interests under the SFO indirectly held through China Resource Products Limited.
- 82,762,100 Shares are deemed corporate interests under the SFO indirectly held through Yieldwell International Enterprise Limited.
- 82,762,100 Shares are deemed corporate interests under the SFO indirectly held through Yieldwell International Enterprise Limited and Fexi Holdings Limited.
- 158,102,000 Shares are deemed corporate interests under the SFO indirectly held through Reco Pearl Private Limited.
- 158,102,000 Shares are deemed corporate interests under the SFO indirectly held through Reco Pearl Private Limited and Recosia China Pte Ltd.
- 158,102,000 Shares are deemed corporate interests under the SFO indirectly held through Reco Pearl Private Limited, Recosia China Pte Ltd. and Recosia Pte Ltd.
- 99,467,688 Shares are deemed corporate interests under the SFO indirectly held through JPMorgan Chase Bank, J.P. Morgan Investment Management Inc., JF Asset Management Limited, J.P. Morgan Fleming Asset Management (Asia) Inc. and J.P. Morgan Fleming Asset Management Holdings Inc.
- 40,859,344 Shares are deemed corporate interests under the SFO indirectly held through JPMorgan Chase Bank.

Save as disclosed, so far as known to the Directors, there is no person who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any of its subsidiaries or held any option in respect of such capital.

## Directors' Report

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### Designated Deposit and Due Fixed Deposit

As at 31 December 2004, the Group had no Designated Deposit and Due Fixed Deposit.

### Employees

As at 31 December 2004, the Group had 288 staff. Remuneration is determined by reference to market terms and the performance, qualifications and experience of individual employee. Employee benefits provided by the Group include, provident fund schemes, medical insurance scheme, unemployment insurance scheme and housing provident fund. We have conditionally adopted the Share Appreciation Rights Incentive Scheme (the "Incentive Scheme"). The principal terms and conditions of the Incentive Scheme are summarized in the section headed "Summary of terms of the Share Appreciation Rights Incentive Scheme" in Appendix VIII to the Prospectus of the Company dated 10 June 2003. As at 31 December 2004, no share appreciation rights had been granted under the Incentive Scheme.

### Staff Housing Quarters

During the year, the Group did not provide any housing quarters to its staff.

### Connected Transactions and Ongoing Connected Transactions

#### Connected transactions arising from procurement and sales

Details of the connected transactions and ongoing connected transactions of the Group during the year are set out in note 35 to the audited accounts prepared in accordance with HK GAAP. The connected transactions and the ongoing connected transactions have been approved by the Board of the Company. The Audit Committee comprising the independent non-executive directors of the Company have reviewed and confirmed the connected transactions that:

- (i) have received the approval of the board of Directors; and
- (ii) have been entered into at amounts consistent with the pricing policies as stated in the relevant agreements;
- (iii) have been entered into in accordance with the terms of the respective agreements and documents governing the transactions; and
- (iv) The aggregate transaction amount were within the maximum limit approved by The Stock Exchange of Hong Kong Limited set out in its relevant waiver letter.

#### Ongoing Connected Transactions

Set out below is a summary of the ongoing connected transactions ("Ongoing Connected Transactions") of the Company for which the Stock Exchange has granted a waiver:

## Directors' Report

### Connected Transactions and Ongoing Connected Transactions *(continued)*

#### Provision of decoration and installation services

Since 2000, subsidiaries of the Company have from time to time entered into contracts for decoration and installation services with Beijing Ji Gao Indoor Decoration Works Company Limited ("Ji Gao"), a limited liability company incorporated in the PRC, and which is 60% owned by Beijing Capital Technology Investment Ltd., a substantial shareholder of the Company, and 40% owned by New Capital Investment (Hong Kong) Limited. Accordingly, Ji Gao is a connected person of the Company. The Stock Exchange has granted a waiver to the Company from strict compliance with the relevant requirements of the Listing Rules, subject to, inter alia, that the annual amount for decorating and installation services provided by Ji Gao shall not exceed RMB8,341,090, representing 0.2% of the cost of sales of the Company of approximately RMB2,449,000 for the year ended 31 December 2004.

Further details of the Ongoing Connected Transactions are set out in the Prospectus of the Company dated 10 June 2003.

#### Formation of a PRC Joint Venture Company

The Company entered into the Joint Venture Contract ("Joint Venture Contract") to establish a sino-foreign equity joint venture company in Beijing, PRC with Reco Ziyang Pte Ltd. ("Reco Ziyang") on 11 October 2004. The total amount of investment of the Joint Venture Company is US\$90,000,000, which includes a registered capital of US\$60,000,000. The Company and Reco Ziyang shall contributed 55% and 45% of the total amount of investment respectively. The Joint Venture Company, which was established on 15 October 2004, was set up for the purpose of the development of the Project situated in Chaoyang District, Beijing, PRC. The land of the Project has been obtained by the Company and Reco Ziyang jointly through public trading the Beijing, PRC in accordance with the Tender Regulation. Reco Ziyang is an associate of Reco Hibiscus Pte Ltd., which is a substantial shareholder of a subsidiary of the Company, Beijing Anhua Shiji Real Estate Development Company Limited. Accordingly, Reco Ziyang is a connected person of the Company pursuant to the Listing Rules. The transaction was approved, confirmed and ratified at the EGM held on 17 December 2004.

Further details of the Connected Transactions are set out in the Discloseable and Connected Transaction Circular of the Company dated 1 November 2004.

#### Other Connected Transactions

##### *Loan Agreement*

As part of the process to obtain land use rights certificates for the properties of the Company under development and held for future developments, the Company entered into a loan agreement and a supplemental agreement with the Company's controlling shareholder, the Capital Group on 10 February 2003 and 31 May 2003 respectively (collectively the "Loan Agreements"). Under the Loan Agreements, the Capital Group paid RMB1,439,000,000 to the Land Bureau, being 100% of the land premia payable by the Company to the Land Bureau for the relevant properties. In return, the Land Bureau issued long-term land use rights certificates for the relevant properties in the names of the corresponding project companies. A loan in the amount of RMB300,000,000 has been set off against the amount due to the Company by the Capital Group. The balance of the loan shall be repaid by the Company over a period of three years. The first principal payment of RMB300,000,000 is payable within 3 months from the date of listing of the Company on the Stock Exchange. Interest is payable on this first principal portion only, at a rate equal to the base lending rate promulgated by the People's Bank of China from time to time. No interest is payable on the remaining balance of the loan. Further details of the loan arrangement has been disclosed in the Company's prospectus dated 10 June 2003. During 2004, the Group had repaid RMB556,416,000 for the above loan.

## Directors' Report

### Connected Transactions and Ongoing Connected Transactions *(continued)*

#### Other Connected Transactions *(continued)*

##### *Beijing Fengdu Agreement*

The Company entered into Beijing Fengdu Agreement (“Beijing Fengdu Agreement”) with Beijing Finance and Accountancy Information Service Centre (北京財務會計諮詢服務中心) (“Financial Centre”) on 30 March 2004 in relation to the acquisition of interest in Beijing Fengdu by the Company from Financial Centre, for a consideration of RMB22.4 million. Beijing Fengdu is originally held as to 91.67% by Super Shine and 8.33% by Financial Centre. Pursuant to the Beijing Fengdu Agreement, Financial Centre sold and the Company purchased, 8.33% of the interest in Beijing Fengdu for a total consideration of RMB22.4 million. The Company shall not assume other debt or obligations in connection with the acquisition. As Financial Centre is an indirect wholly owned subsidiary of Capital Group, which is the controlling shareholder of the Company, Financial Centre is a connected person of the Company pursuant to the Listing Rules.

Further details of the Connected Transactions are set out in the Major, Discloseable and Connected Transaction Circular of the Company dated 17 May 2004.

##### *Beijing Xing Tai Agreement*

The Company entered into Beijing Xing Tai Agreement (“Beijing Xing Tai Agreement”) with Super Shine, Beijing Fengdu and Beijing Xing Tai on 30 March 2004 in relation to the acquisition of the capital injection in Beijing Xing Tai. Beijing Xing Tai was originally held as to 75% by Super Shine and 25% by Beijing Fengdu. As Super Shine, Beijing Xing Tai and Beijing Fengdu are the non wholly owned subsidiaries of the Company, as such Super Shine, Beijing Xing Tai and Beijing Fengdu are connected persons of the Company pursuant to the Listing Rules. Pursuant to the Beijing Xing Tai Agreement, the Company shall make a new capital contribution of RMB43,000,000 to Beijing Xing Tai, in which RMB13,800,000 shall be registered capital contribution, and the remaining RMB29,200,000 shall be contributed as premium. After the capital injection, Beijing Xing Tai held as to 25% by the Company, 56.25% by Super Shine and 18.75% by Beijing Fengdu, and the registered capital of Beijing Xing Tai increased to RMB55,180,000.

Further details of the Connected Transactions are set out in the Major, Discloseable and Connected Transaction Circular of the Company dated 17 May 2004.

### Bank Loans and Other Borrowings

As at 31 December 2004, the short-term bank loans of the Group was RMB1,800,000,000, of which unsecured borrowing was RMB800,000,000 million and secured borrowing was 1,000,000,000; and details of long term bank loans and current portion of long term bank loans are set out in notes 28 to the accounts. Other borrowings were mainly amount due to ultimate holding company, details of which are set out in notes 21 and 26 to the accounts.

## Directors' Report

### Pre-emptive Rights

There are no provisions for pre-emptive rights under the Articles and related laws which oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

According to the Strategic Investment Agreement entered into between, among others, the Company and Reco Pearl Private Limited ("Reco Pearl") on 11 March 2003 as amended by a supplemental agreement dated 15 May 2003 ("The Strategic Investment Agreement"), the Company has undertaken that, provided that the shareholding held by Reco Pearl in the Company is above the threshold percentage as set out in the Strategic Investment Agreement, if the Company issues or places any new H Shares or if other securities convertible, or exchangeable into or which represent such new H Shares (the "Additional Securities") are issued or placed by or on behalf of the Company within a period of five years after dealings of the H Shares commence on the Stock Exchange, Reco Pearl shall have the right to purchase or subscribe on identical terms as such Additional Securities are issued to or placed with other investors, such number of the Additional Securities in accordance with the percentage of shareholding held by Reco Pearl Private Limited or any of its affiliate(s) in the share capital of the Company immediately prior to such issuance or placement so as to maintain its relevant percentage shareholding.

### Subsidiaries

Details of the Company's major subsidiaries are set out in note 13 to the accounts.

### Results of Operations

Results of Operations of Financial Year 2004 are set out on pages 28 to 29 of the annual report.

### Policies on Income Tax

The Company and its subsidiaries paid PRC corporate income tax at a rate of 33% of its assessable profits according to the relevant laws and regulations in the PRC.

### Financial Resources and Liquidity

Financial Resources and Liquidity are set out on pages 29 to 30 of the annual report.

### Code of Best Practice

Throughout the year, the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### Other Major Events

In July 2004, the Company has applied for an initial public offering of A Shares from China Securities Regulatory Commission and did not obtain the approval.

## Directors' Report

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### **Auditors**

The accounts have been audited by PricewaterhouseCoopers, who retire and being eligible, offer themselves for reappointment. A resolution reappointing PricewaterhouseCoopers as the Hong Kong auditors of the Company will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

**Liu Xiaoguang**

*Chairman*

Beijing, the PRC, 22 March 2005